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C O N F I D E N T I A L ALMATY 003912

SIPDIS

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TAGS: ENRG EPET KZ POLITICAL

SUBJECT: KAZAKHSTAN: PRESIDENT'S SON-IN-LAW RESIGNS FROM STATE OIL AND GAS COMPANY

REF: ALMATY 3857

Classified By: AMBASSADOR JOHN ORDWAY FOR REASONS 1.4(B) and (D)

¶1. (C) Summary. In a surprise move, President Nazarbayev's son-in-law, Timur Kulibayev, resigned on October 22 as First Vice-President of the state-owned oil and gas company, reportedly to pursue private business interests. Kulibayev's replacement is Aleksandr Pavlov, a former Deputy Prime Minister and current Deputy Chairman of Otan, Nazarbayev's political party. Presidential Advisor Karim Masimov suggested to the Ambassador that Kulibayev's resignation would free the President to move against suspected corrupt individuals in the government. Opposition politicians have interpreted the move as an electoral tactic aimed at countering their charges of nepotism and abuse of authority in the Nazarbayev administration. Many here speculate, without clear evidence, that Kulibayev's resignation signals a decline of his influence in relation to Nazarbayev's other son-in-law, Rakhat Aliyev, the current First Deputy Foreign Minister. As for Kulibayev's future, many in the oil sector believe he will re-emerge soon, perhaps as a major buyer of shares in KMG's oil-producing subsidiary, KMG Exploration & Production Joint Stock Company (KMG E&P), when the company makes a public offering of as much as 40% of its shares in early 2006. End Summary.

A Move to Clean Up the Administration?

¶2. (C) Kazinform, the state news agency, broke the news of Kulibayev's resignation as KMG VP on October 22. The agency reported simultaneously that Pavlov had been named to fill the vacancy. Earlier that morning, top Presidential Advisor Karim Masimov had alerted the Ambassador to the change, adding that Kulibayev would follow his resignation by issuing a public appeal to all his relatives to leave state service in order not to undermine Nazarbayev's position. Masimov suggested to Ambassador that Kulibayev's departure would clear the way for the President to move against others who might be involved in corrupt activities.

Opposition Imputes Election Motives

¶3. (C) Many observers on the scene here speculate that Nazarbayev, and not Kulibayev, may have instigated the resignation as a way of blunting opposition criticism during the electoral campaign that Nazarbayev's clan has abused its political and economic power. In an October 26 article published on-line, Oraz Zhandosov, co-chair of the opposition "True Ak Zhol" party and "For a Just Kazakhstan" movement, was quoted as saying that, "sooner or later," Kulibayev's "private interests" (which included a large share Nelson Resources until the oil company was sold to Lukoil on October 15 -- see reftel) would create a "conflict of interest" with his responsibilities as KMG VP. "Alga" leader Asylbek Kozhakhmetov went further, stating that "of course" Kulibayev's resignation was tied to the elections, and the fact that the opposition often criticized Nazarbayev's creation of a clan-based authority structure. In a separate quote published in an oil and gas trade journal, Zhandosov outlined how the public would know if Kulibayev's resignation constituted a mere electoral tactic or a genuine change in administration direction: "All of the KMG division heads were appointed by Kulibayev," Zhandosov noted. "If they don't get replaced, there won't be a change of policy; if they do, there will." Skeptics of the theory that Kulibayev's resignation represents a dramatic shift in influence or policy point out that new KMG VP Pavlov is widely perceived to be Kulibayev's close confidant. Pavlov is Chairman of the Board of Directors of Halyk Bank, of which Kulibayev is believed to be a major shareholder.

Speculation of Sibling Rivalry

¶4. (SBU) The media and Embassy contacts alike have speculated that Kulibayev's resignation may signal a shift in influence from Kulibayev (who is married to Nazarbayev's middle daughter Dinara) to Aliyev (married to elder daughter and parliamentarian Dariga), who recently returned from a

perceived "exile" in Vienna. According to this argument,

Nazarbayev maintains a balance of power around him by transferring overly-successful or ambitious individuals to less-advantageous posts. Kulibayev, the logic runs, had become too powerful, first by serving for three years as KMG's de facto chief, and then by acquiring a fortune from the sale of Nelson Resources.

¶5. (C) One hint of a possible escalation in sibling rivalry comes from a rumor circulating in the oil industry: namely, that Kulibayev resigned in order to free himself (and sold his share of Nelson Resources in order to free his cash) for a bid to purchase shares in KMG E&P when as much as 49% of the company is sold in a public offering expected in early ¶2006. In mid-August Asar, the political party which Dariga Nazarbayeva heads, penned a public letter which criticized the planned privatization. Plans to sell a stake in "a strategic asset of the Kazakh economy on the western market goes against Kazakhstan's long-term interests," the letter read, and later referred to the deal as "thoughtless" and "politically irresponsible."

¶6. (C) Comment: It is difficult to know which of these motives might have driven Kulibayev's resignation. Nazarbayev's family excels at keeping its differences and motives secret. We can only hope that Masimov is right, and that Nazarbayev intends to use this opportunity to root out corrupt individuals who might previously have been protected by their relationship with Kulibayev. End comment.
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